



BRIEF ANALYSIS FY 2005 OMB MID-SESSION REVIEW

PREPARED BY: DEMOCRATIC STAFF, SENATE BUDGET COMMITTEE
August 2, 2004

More Evidence of Fiscal Deterioration Under Bush Administration

The Bush administration's FY 2005 Mid-Session Review provides more evidence of the nation's fiscal deterioration under the policies of President Bush. Since the President took office, record surpluses have been turned into record deficits, and each year our budget outlook has worsened.

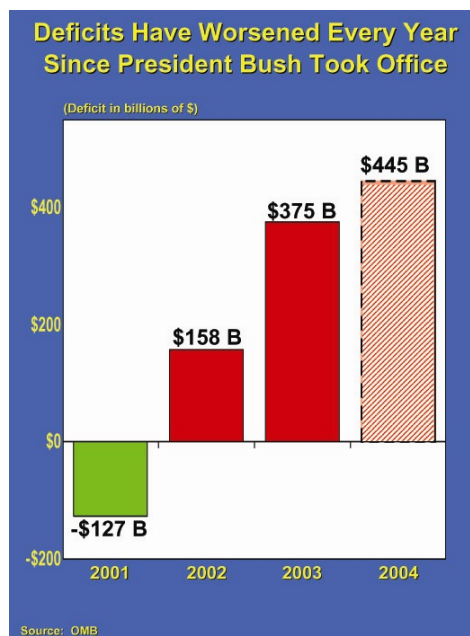
According to the new projection in its Mid-Session Review, the Bush administration's policies will create a \$445 billion deficit this year – setting yet another record and topping last year's deficit by \$70 billion. When viewed on an operating basis – that is, when Social Security is excluded – the 2004 deficit will actually be \$595 billion, which represents 5.2 percent of GDP.

Bush Administration Projected Budget Deficits – as of July 2004

\$ billions	2004	2005	2006	2007	2008	2009	2005-09
Deficits	-445	-331	-261	-233	-228	-229	-1,282
Deficits w/o Social Security.	-595	-512	-454	-446	-461	-477	-2,350
% of GDP	5.2%	4.2%	3.5%	3.3%	3.2%	3.2%	---
Debt held by the public.	4,330	4,665	4,939	5,190	5,436	5,683	---

Deficits have worsened every year since President Bush took office. In 2000, the final year of the previous administration, the nation enjoyed a record surplus of \$236 billion. Under the Bush administration's leadership, that was reduced to a \$127 billion surplus in 2001, a \$158 billion deficit in 2002, a record \$375 billion deficit in 2003, and now another record deficit of \$445 billion in 2004. In under four years, the Bush administration has overseen the most severe fiscal deterioration in our nation's history.

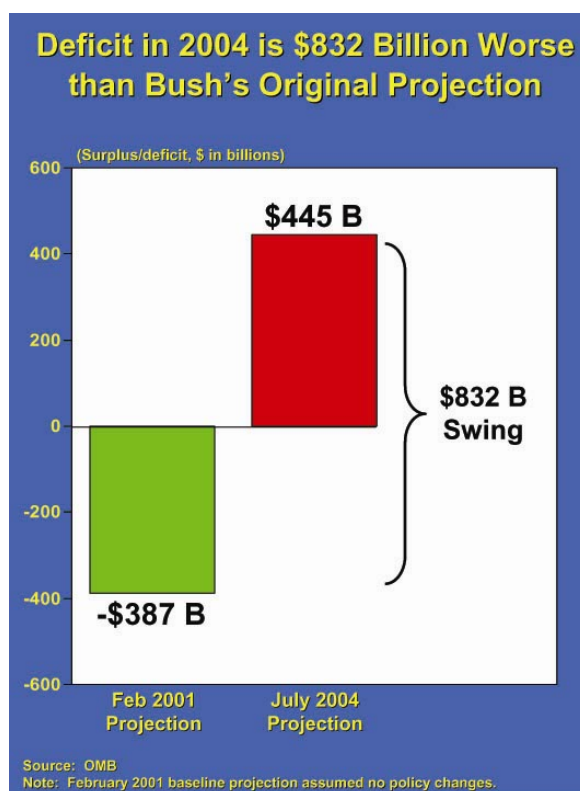
Bush administration claims about deficit coming down are not credible. To distract attention from its record of fiscal irresponsibility, the Bush administration is claiming that its Mid-Session Review shows that the deficit is coming down. Don't believe it for a minute. The deficit this year is once again getting worse, not better.



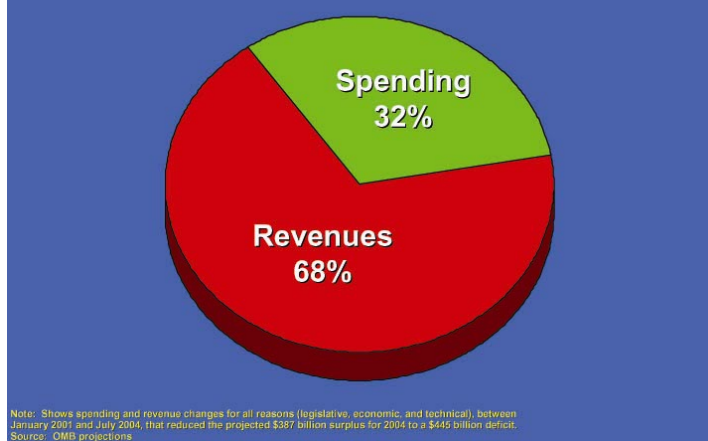
The only way the administration can claim that the deficit is coming down in 2004 is by comparing its new \$445 billion deficit projection to its \$521 billion projection released in February. The problem is that the administration's \$521 billion deficit projection was never realistic. It seems clear that the administration inflated that earlier projection so that it could claim an improvement, even when there is none.

If the administration really wants to compare projections, it should look back to its original projection for 2004. In February 2001, as the President was pushing for his first large deficit-financed tax cut, the administration projected there would be a surplus of \$387 billion in 2004 if there were no changes in policy. If we compare that projection to the administration's new projection of a \$445 billion deficit in 2004, we can see an \$832 billion negative swing for 2004. That comparison provides the clearest picture of the failure of the President's fiscal policies.

Most of deterioration in budget forecast for 2004 caused by drop in revenues. Despite efforts by the administration to blame the deficit on spending, 68 percent of the \$832 billion negative swing in 2004 deficit projections can be attributed to the President's tax cuts and other changes in revenue.



68% of the Deterioration in the FY 2004 Budget Forecast is Explained by Lower Revenues



Real deficit picture is far worse than Bush administration claims.

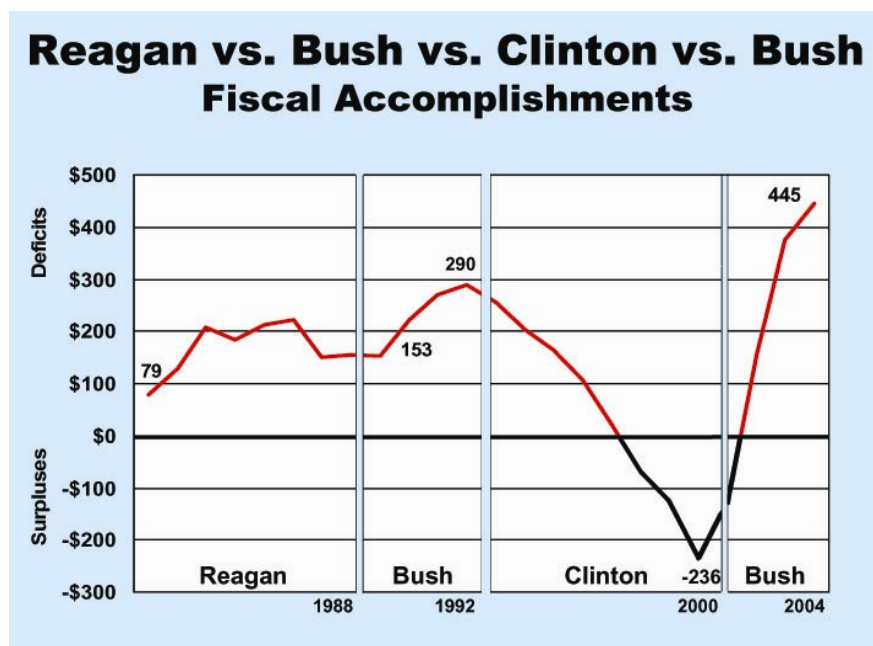
Unfortunately, all of these deficit numbers fail to capture the extent of the nation's fiscal deterioration going forward. As with the President's budget released in February, the Mid-Session Review breaks with the tradition of providing 10 years of budget projections and instead provides deficit figures for only the next five years. Using this limited budget window allows the Bush administration to again conceal the surge in deficits that will occur as the baby-boomers begin to retire and the costs of the President's tax cuts explode.

And the deficits for the next five years that are shown leave out large expenses from the budget that we know are coming, such as the true cost of ongoing military operations in Iraq, Afghanistan, and the continuing war on terrorism, and the cost of reforming the Alternative Minimum Tax (AMT) so that it doesn't hit the middle-class.

And perhaps worst of all, the Bush administration's deficit projections fail to account for the Social Security and Medicare funds that are being borrowed to pay for other things. Instead of preparing for

the strain on Social Security and Medicare from the coming retirement of the baby boom generation by paying down debt or pre-paying the liability, President Bush is spending every penny of the Social Security surplus over the ten years – \$2.4 trillion in total. As disturbing as the short-term deficit outlook appears, it is the Bush administration's complete failure to prepare for this long-term budget crisis that raises the most concern.

Bush administration's record of fiscal failure. The Bush administration's record of plunging the nation back into deep deficits stands in stark contrast to the previous administration. While deficits worsened dramatically under President Reagan and under President Bush's father, only President Bush managed to turn the largest surplus in the nation's history – created under President Clinton – into the largest deficit in the nation's history in just a few years.



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